University of Strathclyde Business School

Fraser of Allander Institute & Scottish Centre for Employment Research

Scottish Labour Market Trends

Vol 3 No 1

The Fraser of Allander Institute (FAI) is an economic research institute with over 40 years of experience researching, analysing and commentating on the Scottish economy. The FAI undertakes a unique blend of cutting-edge academic research alongside applied commissioned economic consultancy in partnership with business, local and national government and the third sector.

The Scottish Centre for Employment Research (SCER) has an international reputation for high quality research and knowledge exchange on work and employment. SCER works collaboratively with academic, policy and practitioner stakeholders to generate high impact research that delivers shared benefit. The Centre has particular expertise in supporting workplace innovation, job quality and fair work, key priorities for Scotland.

Labour Market Trends – published every six months – is jointly produced by the FAI and SCER and aims to shed light on key developments in Scotland's labour market. Alongside a summary of recent trends and the outlook, the report also highlights longer trend developments and areas for discussion.

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Summary

Key Labour Market Indicators: January – March 2019

	Employment (16-64)	Unemployment (16+)	Inactivity (16-64)
Scotland	75.4	3.2	22.0
England	76.3	3.9	20.5
Wales	75.4	4.5	20.9
N.Ireland	71.3	2.9	26.5

Source: ONS, Labour Force Survey

On headline indicators like the unemployment and employment rates, things have barely been better in the Scottish and UK labour market.

Scotland's unemployment rate is at 3.2%, a record low since the current series began in 1992. The UK saw its unemployment rate drop to 3.8%, its lowest since 1974.

This strong performance on headline indicators holds not only in aggregate, but for both men and women.

The UK female unemployment rate is the lowest rate since records began in 1971 of 3.7%, the employment rate for women stayed at its record high of 71.8% recorded in the last set of data.

For men the unemployment rate at 3.9% is its lowest since 1975, with the employment rate at 80.3%, down only slightly on its recent near two decade high at the end of last year.

Some people have criticised the survey measures on which these indicators are based, and suggested that this is behind these impressive headline numbers. For example, to be classed as employed you only need to do an hour of work in the reference week.

While it is always important to think about whether trends in the data are being driven by how we measure them, the ONS have illustrated that the impact of these issues on headline indicators is small.

Yet, there is barely anybody who believes that the labour market is really working well for everyone. Economic growth is weak, productivity growth is muted, and wage growth is struggling to outpace inflation.

In this edition of labour market trends we will look in more detail at both the headline indicators, but also wider indicators of what is happening in the Scottish labour market.

We review the latest data on who is employed in the UK labour market, what sort of employment they are in, and what is happening to the hours being worked.

We also review the latest data on earnings using data from both surveys and also data from the HMRC on income liable for pay-as-you-earn taxation.

We finish our review of the Scottish labour market with a look at the evolving picture of labour productivity, not just for Scotland as a whole, but also for industrial sectors in Scotland. Using the latest ONS data we also look at the pattern of productivity growth across Scotland.

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Scottish Centre for Employment Research

May 2019

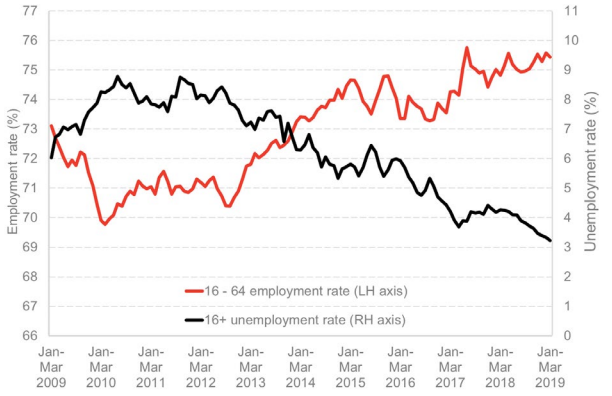
Overview and Analysis

Table 1: UK labour market, January – March 2019

	Employment (16-64)	Unemployment (16+)	Inactivity (16-64)
Scotland	75.4	3.2	22.0
Quarterly Change	-0.1	-0.2	0.3
Annual Change	0.6	-1.0	0.2
UK	76.1	3.8	20.8
Quarterly Change	0.2	-0.2	-0.1
Annual Change	0.5	-0.4	-0.2

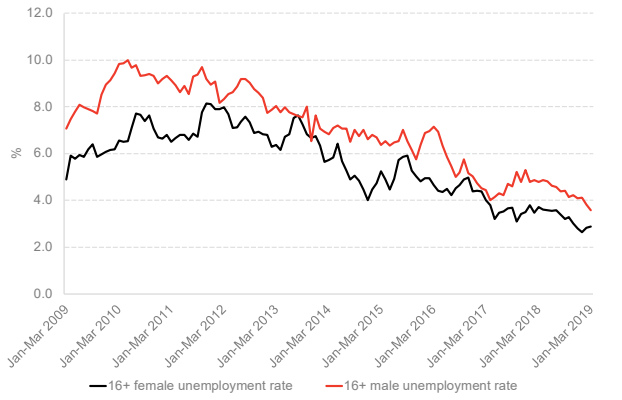
Source: ONS, Labour Force Survey (LFS)

Chart 1: Scottish employment & unemployment rate 2009 – March 2019



Source: ONS, LFS

Chart 2: Scottish unemployment rate by gender 2009 – March 2019



Source: ONS, LFS

Introduction

Scotland's unemployment rate currently sits at 3.2%. With the unemployment rate in Scotland now a full percentage point lower than it was this time last year.

The unemployment rate is now at a record low since the current Labour Force Survey began in 1992.

The UK saw its unemployment rate drop to 3.8%, falling by 0.4%-points over the past year, and now recording its lowest rate since 1974.

This strong performance on headline indicators in Scotland and the UK holds not only in aggregate, but for both men and women.

The male employment rate in Scotland is 79.0%, nearing its decade high of 79.6%, with the male unemployment rate at its record low of 3.6%. For men in the UK the unemployment rate at 3.9% its lowest since 1975, with the employment rate at 80.3% near its two decade high recorded at the end of last year.

The employment rate for women in Scotland is currently 72%, not far off its current recorded high of 72.7% set in 2015. The female unemployment rate in the UK hit its lowest rate since records began in 1971 of 3.7%, the employment rate for women stayed at its record high of 71.8% recorded in the last set of data.

One of the features of the UK labour market after the global financial crisis in 2008—2009 was the changing age structure of those in employment, which we review in the next section.

Definitions of headline indicators

Before moving on to look at these headline indicators by age, type of employment and so on, it is worth thinking in more detail about how these different labour market measures are defined.

There are two traditional measures of unemployment which are reported for the UK and for most industrialised countries.

The first is based on survey data. In the UK this is calculated using the Labour Force Survey. This measure is based on an internationally agreed International Labour Organisation (ILO) definition of unemployment. To be unemployed, the ILO definition requires that you:

- Are not in employment;
- Have been actively looking for work in the previous 4 weeks;
- Are available to start work in the next two weeks;
- Are out of work, but has found work and is waiting to start in the next two weeks.

The second is the claimant count measure, based on the number of people accessing unemployment benefits. Unemployment benefits vary substantially across countries in both their generosity and their availability and duration.

For this reason this measure provides a poor cross-country comparison of unemployment. This is why the ILO definition, implemented in a consistent manner across countries, is crucially important.

A popular criticism of those recognising that the unemployment rate is at, or has been near, its record low is to point out that the definition of employment used by the ONS in the UK, is that you have worked at least one hour in the past week.

Some of the criticism of the impressive headline employment rates is that by defining employment in this way, it is little wonder that so many people are being classed as in employment. However, this is not a new definition, but one that has been in place for some time.

To check if this is an issue – or has become more of an issue in recent times – we can look at the data collected as part of the survey around the number of hours being worked.

If it is the case that these impressive headline numbers are being driven by people working very few hours a week, this should show up in the survey.

It does not.

The ONS calculated that the percentage of people in the UK labour market working fewer than 6 hours a week is around 1.5%, down from near 2% in the early 1990s.

Similarly, some argue that because of the higher use of 'zero hour' contracts in the UK labour market than in the past, these people may not be included properly in the labour market data.

However, the ONS ask workers about their *usual* hours of work, and therefore these workers are included in the headline data.

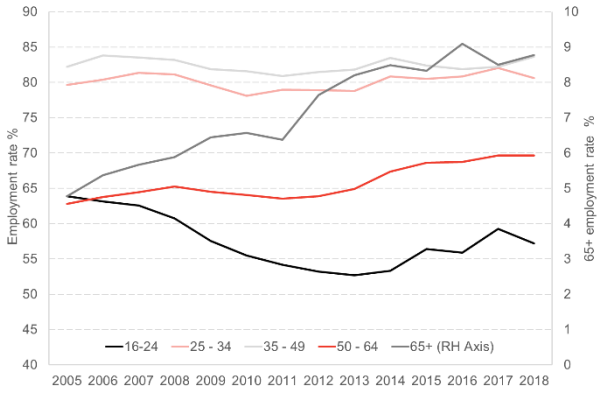
Zero-hour contracts were something which became more prevalent in the aftermath of the global financial crisis, but their use has fallen back substantially.

The latest data from the ONS show that in 2018 around 2.7% of the Scottish labour force were on zero-hour contracts, compared to 2.6% for the UK as a whole.

This is, of course, not to say that all is well for those in-work. Merely that the headline indicators are reporting what they have always reported. They are reporting that unemployment is down and employment is near its record high because, well, it is.

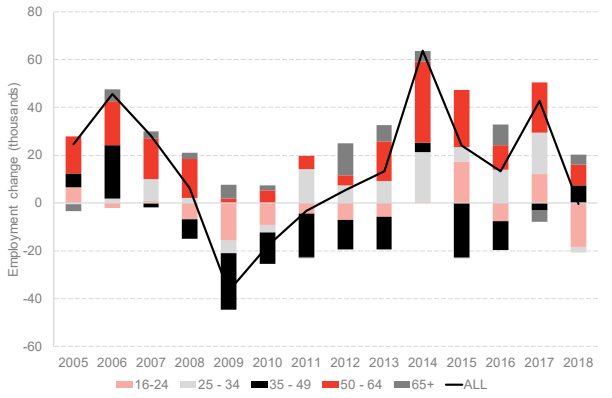
Later in this report we look at the available data on earnings and productivity, and we will see some of the challenges that remain.

Chart 3: Employment rates by age up to January – December 2018



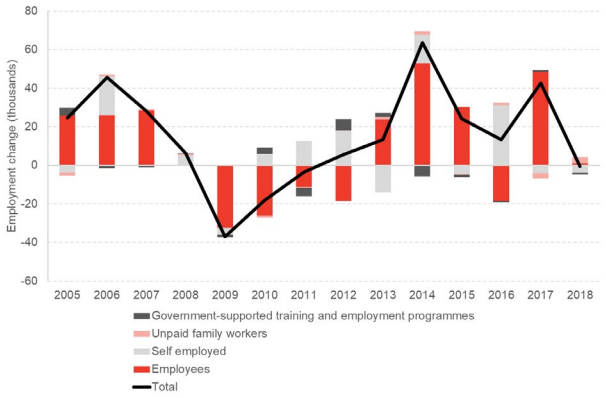
Source: ONS, APS

Chart 4: Employment changes by age up to January – December 2018



Source: ONS, APS

Chart 5: Employment changes by type of employment up to January – December 2018



Source: ONS, APS

Employment by age and type

Since the global financial crisis the age composition of the Scottish labour market has changed.

Chart 3 shows the evolution of the employment rate in Scotland for a range of age groups since 2005.

We can see from Chart 3 (right hand axis) that older workers are much more likely to be in employment now than they were earlier in the 2000s.

The employment rate for 25-34 and 35-49 year old workers has been broadly stable over this period, but workers 50-64 are now more likely to be in employment, than in 2005.

Part of this reflects broader economic conditions, with workers having to stay longer in the labour market than previous cohorts, for example with fewer people retiring before 65, but part of it also reflects increasing retirement ages.

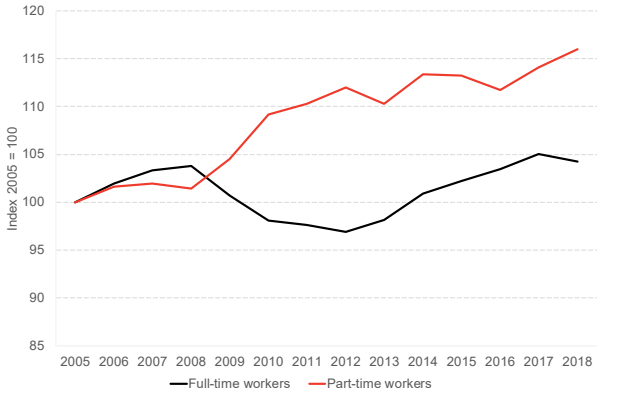
Chart 4 shows how the change in the number of people in employment in Scotland is broken down by age group. The solid black line shows the change in the number of people in employment in Scotland.

We can see that over the past few years there has been a significant increase in the number of 50-64 year old workers entering employment.

Through 2018, we can also see a decrease in the number of 16-24 year olds in employment, in a similar way to what was observed in the aftermath of the global financial crisis. This may reflect changes in the perceived trade-off between the employment and the education and training opportunities available.

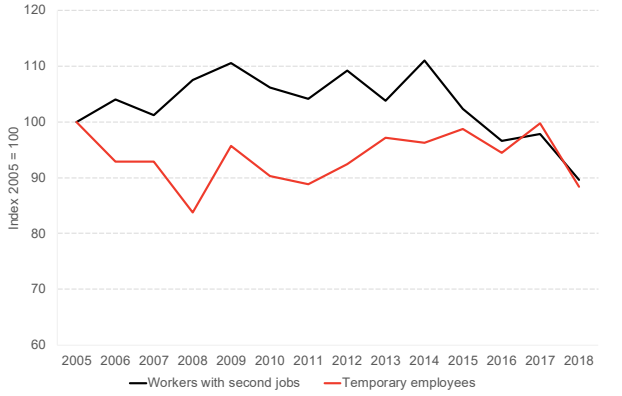
Chart 5 show how the nature of employment in the Scottish labour market has changed since 2005. We can see that most of the job growth has been in employee jobs, with the exception of increases in self-employment in the aftermath the financial crisis and a sharp increase in self-employment in 2016.

Chart 6: Change in Full-time and Part-time employment to January – December 2018



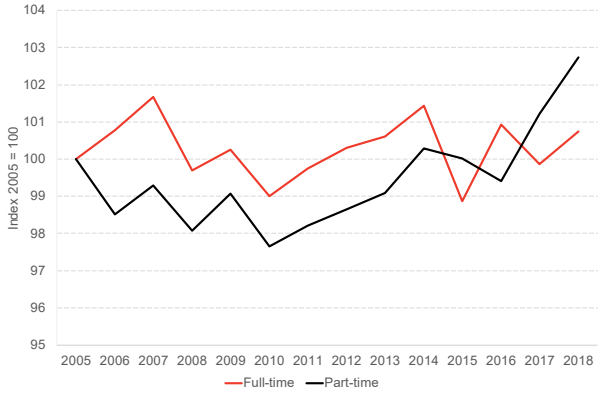
Source: ONS, APS

Chart 7: Growth of second jobs and temporary working to January – December 2018



Source: ONS, APS

Chart 8: Change in hours worked by Full-time and Part-time employment to January – December 2018



Source: ONS, APS

Another way to look at changes in the labour market in Scotland is by looking at changes in the nature of work.

Chart 6 shows the trends in part-time and full-time working in Scotland since 2005.

There is a clear rising trend in the number of workers in part-time employment, up over 15% over this period, with a smaller increase in full-time employment of nearly 5%.

For obvious reasons, many people view growth in full-time work as a better indicator of labour market health than part-time work, however part-time work can represent greater labour market flexibility for workers and can be valued by workers for that reason.

Data on those in part-time employment suggests that part-time working because of an inability to find a full-time job, something that would be an indicator of a weaker labour market, is heading back towards pre-crisis levels of around 10%.

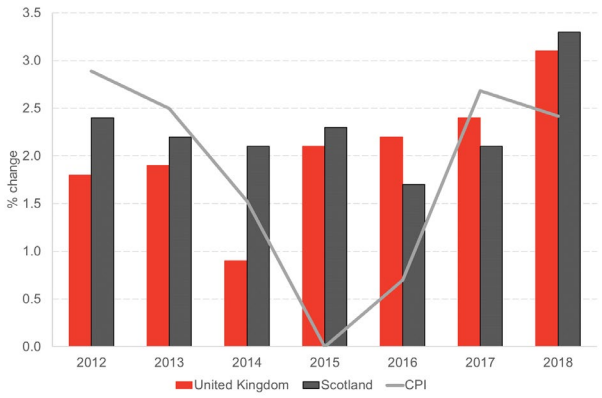
On the latest data, of the 706,000 people in Scotland working part-time, 82,000 were doing so because they could not find a full-time job (12%) while 494,000 (or 70%) were doing so because they did not want a full-time job.

Even within full-time and part-time employment there are differences in the number of hours being worked.

Chart 8 shows the change in actual weekly hours worked for full and part-time workers.

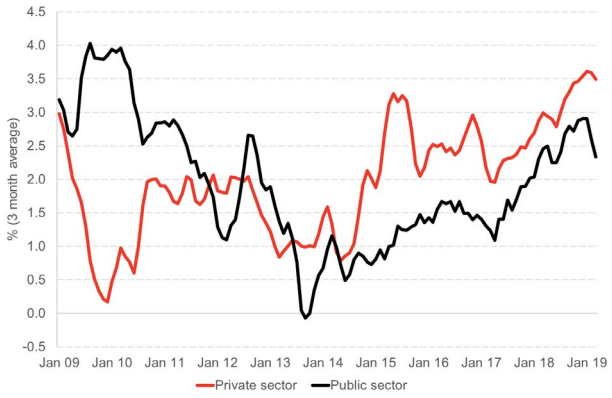
We can see that from 2016 there has been a trend of increasing hours being worked by part-time workers, while the overall trend for full-time workers through this period is fairly flat.

Chart 9: Growth in median pay, 2012-2018 and Consumer Price Index



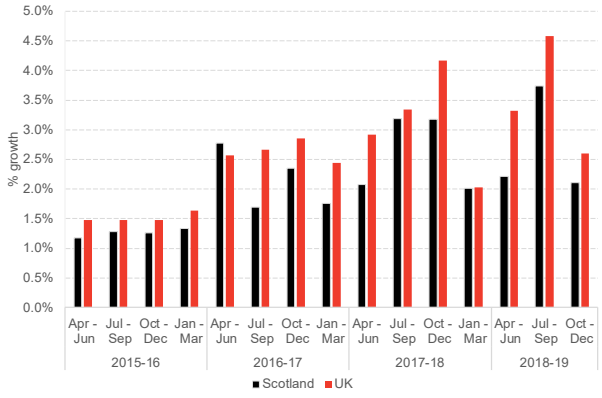
Source: ONS, ASHE

Chart 10: UK average weekly earnings growth, by public and private sector, to March 2019



Source: ONS, AWE

Chart 11: Annual percentage change in Median quarterly PAYE pay per individual



Source: HMRC

Earnings

Turning to the earnings data, the most reliable source of earnings data at a regional level come from the Annual Survey of Hours and Earnings (ASHE).

This is a 1% sample of those registered to pay tax through the pay-as-you-earn (PAYE) system.

Chart 9 shows growth in median pay in Scotland and the UK since 2012. Overlaid on Chart 9 is the headline consumer price index measure of inflation. Where the red or black bar is above the grey line, this indicates that median earnings are growing more quickly than inflation, and therefore these workers should *on average* be seeing their purchasing power increase.

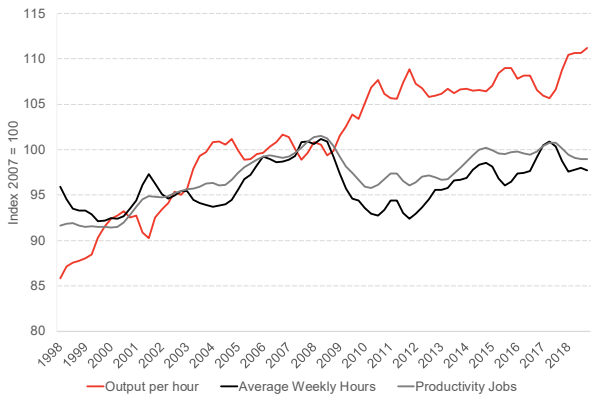
We can see that for parts of this period median earnings have not exceeded inflation. However, the latest data show that growth in median pay in 2018 did slightly exceed headline inflation.

More recent data on earnings growth for the UK as a whole can be found in the ONS's Average Weekly Earnings survey data. These are shown in Chart 10. We can see that pay, in cash terms, grew through 2018, in line with the ASHE data above, but that in more recent times pay growth has started to weaken – particularly in the public sector.

One new data source which is available is experimental data from HMRC on earnings growth based on PAYE tax data. These are shown for Scotland the UK in Chart 11.

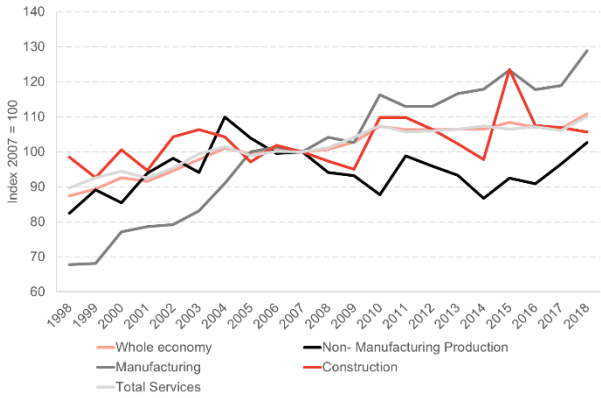
We can see that median earnings growth in Scotland appears to be consistently lagging behind the UK over the past few years, and wage growth slowing in the final three months of 2018.

Chart 12: Productivity growth (output per hour) to 2018 Q4, Scotland



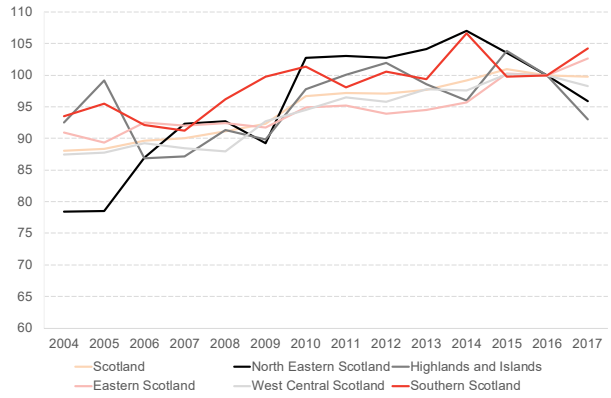
Source: Scottish Government

Chart 13: Productivity growth (output per hour) by sector to 2018, Scotland



Source: Scottish Government

Chart 14: Productivity growth (output per hour) by region of Scotland



Source: ONS, Regional and Subregional Productivity Feb 2019

Productivity

Productivity and earnings have a close relationship. It is through increases in productivity, how much output a worker is able to produce in a given period of time (typically per hour) that firms are able to afford increases in pay.

There are of course broader issues involved here, such as the relative strength of firms and workers bargaining power in wage negotiations, the role of technological change, etc.

Chart 12 shows the path of productivity growth in Scotland since 1998. We can see that labour productivity growth (output per hour worked) grew rapidly at the start of this period, and much more slowly after the global financial crisis. This reflects the UK-wide 'productivity puzzle'.

In more recent times, Scottish productivity has improved, but as we can see from the average weekly hours series in Chart 12, this is typically because of a fall in hours worked, not because workers are producing more output.

Chart 13 shows similar data, but broken down by sector. We can see that manufacturing industries have seen rapid productivity growth, both before and after the global financial crisis. Other sectors, for instance services are barely more productive now than a decade ago.

Within Scotland the location of activity in each sector will have implications for local productivity growth, and in turn wages. Chart 14 shows data on local labour productivity.

We can see that the North Eastern Scotland economy saw rapid rises in productivity through to the oil-price collapse in late 2014. Since then labour productivity has dropped markedly. Elsewhere most areas have tracked Scottish average productivity growth, which has been muted.

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